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April 21, 2009

AGENDA ITEM 3e

TO: MEMBERS OF THE BENEFITS AND PROGRAM ADMINISTRATION COMMITTEE

I. SUBJECT: SB 519 (Ashburn) – As Introduced February 26, 2009
Death Benefits

Sponsor: Department of Personnel Administration

II. PROGRAM: Legislation

III. RECOMMENDATION: Support

This legislation would allow the "5th Level" 1959 Survivor Benefit to become a permanent benefit level for survivors of state and school members.

IV. ANALYSIS:

This bill would eliminate the January 1, 2010 sunset date for the 5th level 1959 Survivor Benefit for all state and school members. No new expiration date would be substituted, making this the permanent benefit level for state and school members.

Background

The 1959 Survivor Benefit Program was enacted as a way for members who are not covered by Social Security to provide a death benefit for their survivors. It is a pre-retirement monthly allowance paid to survivors as defined by law. There are six levels of the 1959 Survivor Benefit which provide set amounts depending on the number of qualified survivors. For example, a spouse without dependant children would receive one of the following amounts at age 60 or 62:

- 2nd level - \$225.00 at age 62 (section 21572)
- 3rd level - \$350.00 at age 62 (section 21573)
- 5th level - \$750.00 at age 60 (section 21574.7)

Three of these levels, the 2nd, 3rd, and 5th, are open to state and school employees; the 5th level is currently in use for all survivors of state and school

members until January 1, 2010 at which time they will revert back to either level 2 or 3. Eligible survivors, for purposes of receiving benefits under the 1959 Survivor Benefit program are: a spouse or domestic partner at least age 60 or 62, depending on benefit level, a spouse or domestic partner who has care of one or more eligible children, any children under age 22 and unmarried including stepchildren living with the member at the time of death, and any children incapacitated because of a disability that began prior to the child attaining age 22 and has continued without interruption since that time.

Legislation in 1999 created the 5th level 1959 Survivor Benefit for all survivors of deceased state members whose death occurred before January 1, 1999. For those state members who died on or after January 1, 1999 the 5th level was only available by the collective bargaining process. Further legislation the following year changed this, increasing survivors receiving either the 2nd or 3rd level, depending on collective bargaining, to the new 5th level benefit amount. It also lowered the spouse entitlement age from 62 to 60. The amendments improving the 5th level were to remain in effect until January 1, 2010 unless it was extended or made permanent before that date.

Proposed Changes

This bill would eliminate the expiration date from the 5th level 1959 Survivor Benefit for all state and school members, making this level permanent.

Legislative History

1999 Ch 555 (SB 400 Ortiz) – Established that all survivors of state and school members were eligible for the 5th level 1959 Survivor Benefit. This eligibility was scheduled to remain in effect until January 1, 2010, unless extended by legislation. *CalPERS' position: Support*

Ch 3 (SB 138 O'Connell) – Created a new 5th level 1959 Survivor Benefit for any survivor of a deceased state member whose death occurred on or before January 1, 1999. For all other members, the benefit was only available through collective bargaining. *CalPERS' position: Support*

1998 AB 2437 (Ortiz) - Would have provided a new level of the 1959 Survivor Benefit for state and school members identical to that provided in this bill. Vetoed by the Governor. *CalPERS' position: Support*

Issues

1. Arguments in Support

According to the author, CHP officers, firefighters, peace officers, and school classified employees who die unexpectedly in their prime earning years do not have Social Security coverage for their surviving dependent children and spouses. The 1959 Survivor Benefit Program, in effect for 60 years, provides

an extremely valuable safety net for these employees and their families at a cost for state employees and at no cost currently to school districts. The elimination of this benefit will provide a very small cost savings to the State. In fact, departments already are funded for this benefit in their current budgets, so continuing the benefit creates no new costs. And while any savings achieved by reducing benefits for these survivors would create negligible costs savings for the state, the cost to the individual survivors of these safety members will be felt profoundly.

Organizations in Support: Department of Personnel Administration (sponsor)

2. Arguments by those in Opposition

There is no known opposition at this time. (3/13/09)

Organizations in Opposition: none

3. Impact on Survivors

Survivors have been receiving this additional income for a decade in some cases. Allowing the benefit to expire would be tantamount to a benefit reduction at a time in which any outside retirement income survivors may be receiving from investments has likely been greatly reduced. If this benefit is not made permanent before January 1, 2010 the school survivors will revert to the 3rd level. The state survivors would be changed to the 2nd level, unless the member died before January 1, 1985 or is in a bargaining unit that has an agreement to provide the 3rd level. In some cases, it would require manual processing to determine whether state survivors should receive the 2nd or 3rd level amount. In addition to reducing the allowance amounts of these survivors, staff would need to stop allowances being paid to spouses who are only 60 or 61 years old. In most cases this means health coverage will cease also.

4. Legislative Policy Standards

The Board's Legislative Policy Standards suggest a support position on proposals that "provide remedies for inequitable, unfair, or discriminatory benefits". The original purpose of the 1959 Survivor Benefit Program was to provide suitable replacement benefits for members who are not eligible for Social Security benefits. Allowing the 5th level benefit to expire would put these survivors in a situation similar to that which the program was originally designed to mitigate.

V. STRATEGIC PLAN:

This legislative proposal supports Strategic Plan Goal No. 5, "providing sustainable pension benefit products and services responsive to and valued by member, employers, and stakeholders".

VI. RESULTS/COSTS:

Program Costs

Determining the change in liability associated with removing the sunset provisions from the 5th level 1959 Survivor Benefit requires an assessment of unknown factors. The future rate of investment return has a significant impact on future unfunded liabilities. Additionally, because each state survivor would have to be assessed individually to determine whether they would revert to 2nd or 3rd level survivor benefits, it cannot be determined precisely what percentage of survivors would be in each category. The liabilities used to compute the expected savings could ultimately turn out to be higher or lower depending on the benefit levels these members have in their contract.

1959 Survivor Benefit State Pool Analysis **Projected 2009-2010 Costs and Funding Status as of June 30, 2009¹** **Using Current Benefit Levels (\$750 Single Survivor)**

	<u>-30% Return</u>	<u>-20% Return</u>	<u>-10% Return</u>
Accrued Liability	\$142,360,419	\$142,360,419	\$142,360,419
30-Yr. Amortization Payment	5,365,396	4,403,239	3,439,422
Normal Cost Premium ²	7,466,625	7,466,625	7,466,625
Per Member Cost (monthly)	<u>13.40</u>	<u>12.40</u>	<u>11.39</u>
Total Expected Annual Cost ^{3 4}	\$12,832,021	\$11,869,864	\$10,906,047

Projected 2009-2010 Costs and Funding Status as of June 30, 2009 **Using Sunset Benefit Levels (75% - \$350, 25% - \$225 Single Survivor)**

	<u>-30% Return</u>	<u>-20% Return</u>	<u>-10% Return</u>
Accrued Liability	\$ 58,026,491	\$ 58,026,491	\$ 58,026,491
30-Yr. Surplus Amortization	(1,681,803)	(2,643,960)	(3,607,778)
Normal Cost Premium	3,017,761	3,017,761	3,017,761
Per Member Cost (monthly)	<u>1.40</u>	<u>.39</u>	<u>.00</u>
Total Expected Annual Cost	\$1,335,958	\$ 373,801	\$ 0

The 1959 Survivor Benefit School pool is fully funded at this time. Any reduction in benefits would not result in yearly savings in the immediate future.

Administrative Costs

Because this bill would merely extend current practice, there will be no additional administrative costs if it is implemented. However, if the bill is not implemented, the initial impact on CalPERS' staff would be substantial. Staff would be required to adjust the allowance of every state and school survivor and modify the

¹ Figures may not add due to rounding

² Annual cost to fund expected new death benefits

³ Total cost cannot be less than zero

⁴ Employee and employer split this cost in the first (current) scenario. In the second scenario (sunset), employee per member, per month cost is fixed at \$2.00

calculations and payment programs for all future survivors. Furthermore, due to the difficulty of obtaining older contract information, some adjustments would require manual processing in order to determine if the survivor's allowance should be adjusted to the 2nd or 3rd level. This would lead to one-time administrative costs of approximately \$28,000.00.

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